LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 6598 **NOTE PREPARED:** Jan 24, 2008
BILL NUMBER: SB 263 **BILL AMENDED:**

SUBJECT: Property Tax Deduction for the Blind and Disabled.

FIRST AUTHOR: Sen. Becker **BILL STATUS:** CR Adopted - 1st House
FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL** **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: This bill increases from $17,000 to $20,610 the taxable gross income limitation for the residential real property tax deduction for an individual who is blind or is an individual with a disability.

Effective Date: January 1, 2008 (retroactive).

Explanation of State Expenditures: The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school General Fund levies attributable to all property. The state also pays 20% of the portion of operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences. PTRC and Homestead credits are paid from the Property Tax Replacement Fund.

The bill first becomes effective for taxes payable in CY 2009. In CY 2009 these payments cannot exceed $2,028.5 M (currently there is no limit for CY 2010). Under current law, if the cost of the credits exceeds this limit, PTRC rates for all taxpayers would be proportionately reduced to stay within this limit. In CY 2009, projections indicate that the $2,028.5 M spending limit would be exceeded. As a result, under this proposal, there would be no PTRC and Homestead credit savings in CY 2009.

Subject to appropriation and assuming full funding of these payments in CY 2010, state PTRC and Homestead payments would be reduced. The state is expected to save approximately $96,000 in CY 2010. In FY 2010 (partial payment), the savings would be approximately $48,000.

Explanation of State Revenues: The state levies a tax rate for State Fair and State Forestry. Under this proposal, the revenue allocated to these funds would decrease by approximately $2,000 in both CY 2009 and CY 2010.

Explanation of Local Expenditures: Forty-nine counties in 2007 provided additional Homestead credits that are paid with proceeds from a combination of county option taxes (COIT) and county economic development income taxes (CEDIT). Local Homestead credits in CY 2009 are expected to decrease by approximately $34,000, and by $33,000 in CY 2010. COIT proceeds that are not used for county Homestead credits are distributed to civil taxing units as certified shares. CEDIT proceeds that are the result of the additional rate allowed for homestead credits may only be used for homestead credits.

Explanation of Local Revenues: Under current law, an individual who is legally blind or disabled may receive an assessed value (AV) deduction on their real property or mobile home residence of $12,480. In order to qualify, the taxable gross income of the taxpayer may not exceed $17,000. For taxes payable in CY 2009 and after, this bill increases the taxable gross income limit of a blind or disabled taxpayer to $20,610.

This analysis assumes that all taxpayers who qualify for the blind or disabled deduction under current law are taking it. It also assumes that all the potentially additional taxpayers covered under this proposal would claim all applicable benefits.

Estimates derived from income tax data and parcel-level data indicate that this proposal would enable approximately 6,500 additional blind or disabled taxpayers to qualify for this provision. In both CY 2009 and CY 2010 they would pay approximately $1.6 M less in taxes for an average net tax reduction of $247 per taxpayer.

This reduction in the property taxes for the 6,500 blind or disabled taxpayers will cause a shift of the property tax burden to all taxpayers in the form of an increase in the statewide average gross tax rate of about $0.07 in CY 2009, and $0.06 in CY 2010. This translates to a property tax shift of $1.8 M to all other taxpayers in CY 2009 and CY 2010. This amount is slightly higher than the $1.6 M in tax savings to blind or disabled taxpayers because the tax base for all other classes of property includes some property that does not qualify for homestead credits or the regular PTRC. Blind or disabled households, on the other hand, comprise only homesteads which qualify for these credits.

Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

State Agencies Affected: State Fair, Department of Natural Resources.

Local Agencies Affected: County Auditors.

Information Sources: OFMA Income Tax Database, OFMA Property Tax Database.

Fiscal Analyst: David Lusan, 317-232-9252.